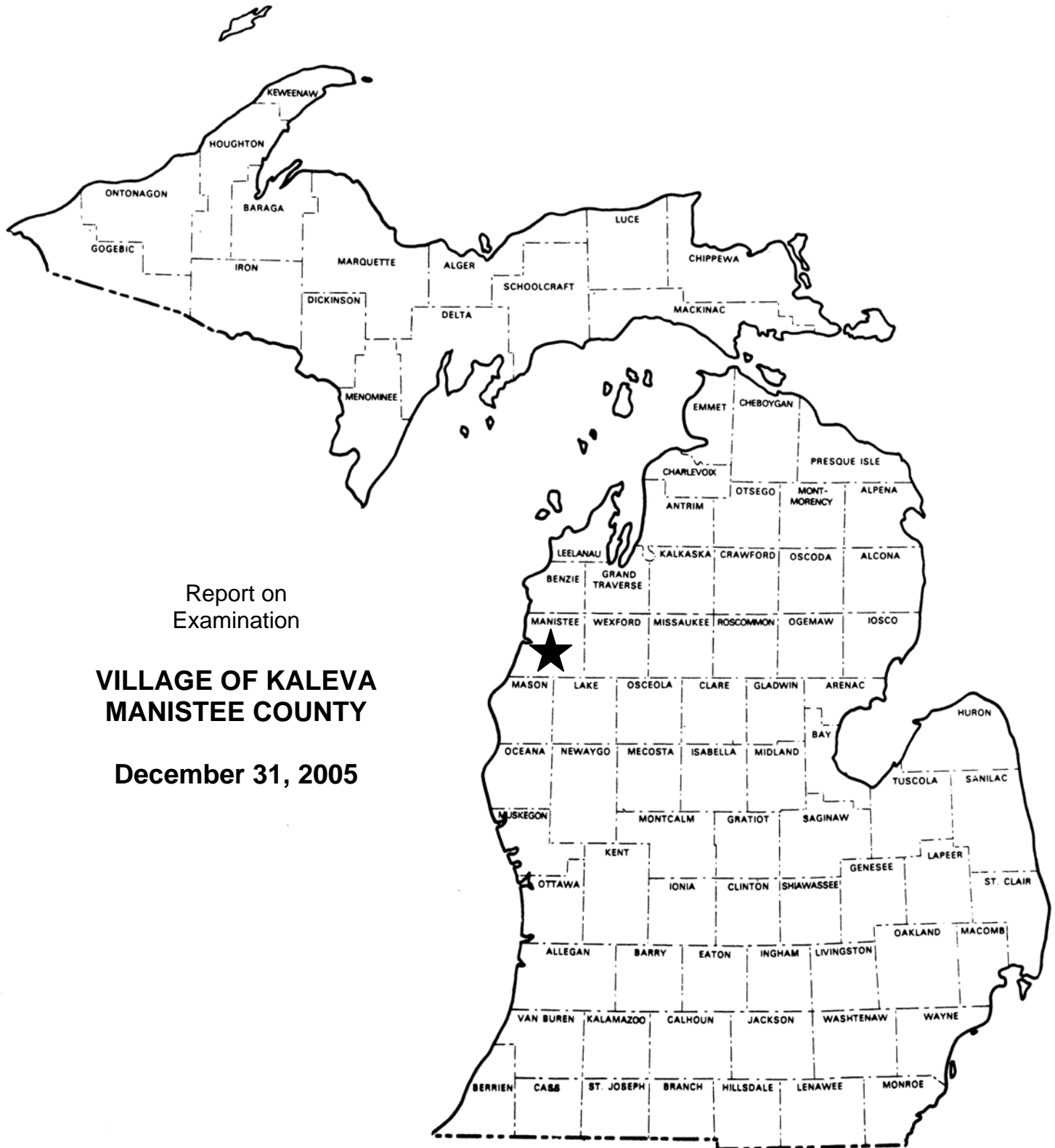


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**VILLAGE OF KALEVA
MANISTEE COUNTY**

December 31, 2005

VILLAGE OF KALEVA

VILLAGE COUNCIL

Daniel Holtz
President

Richard Schafer
Council Member

Sandy Kaskinen
Council Member

Dean Grossnickle
Council Member

Jack McKinley
Council Member

Margaret Peterson
Council Member

David Peters
Council Member

Cathi Holtz
Clerk

Judy Schafer
Treasurer

VILLAGE POPULATION--2000
509

TAXABLE VALUATION--2005
\$7,210,871



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 25, 2006

Village Council
Village of Kaleva
Manistee County
P.O. Box 21
Kaleva, Michigan 49645

Independent Auditor's Report

Dear Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Kaleva, Manistee County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village of Kaleva's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note I, the Village of Kaleva adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of January 1, 2005.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Kaleva, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2006, on our consideration of the Village of Kaleva's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 4 and the Budgetary Comparisons for the Major Funds, included in Exhibits I through K, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kaleva's basic financial statements. The combining nonmajor fund financial statements (Exhibits L through M) and general fund detail schedule of revenues and expenditures (Exhibits N through O) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF KALEVA

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Government-Wide Statement of Net Assets	5
EXHIBIT B--Government-Wide Statement of Activities	6
EXHIBIT C--Balance Sheet--Governmental Funds	7
EXHIBIT D--Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	8
EXHIBIT E--Statement of Net Assets--Proprietary Funds	9
EXHIBIT F--Statement of Revenues Collected, Expenses Paid and Changes in Retained Earnings--All Proprietary Fund Types.....	10
EXHIBIT G--Combined Statement of Cash Flows--Increase (Decrease) in Cash and Cash Equivalents--Proprietary Fund Types	11
NOTES TO FINANCIAL STATEMENTS	12
<u>Required Supplemental Information</u>	
EXHIBIT H--Budgetary Comparison Schedule--General Fund	24
EXHIBIT I--Budgetary Comparison Schedule--Major Street Major Special Revenue Fund.....	25
EXHIBIT J--Budgetary Comparison Schedule--Local Street Major Special Revenue Fund	26
EXHIBIT K--Budgetary Comparison Schedule--Library Major Special Revenue Fund	27

VILLAGE OF KALEVA

TABLE OF CONTENTS (Continued)

	<u>Page</u>
<u>Supplemental Information and Schedules</u>	
EXHIBIT L--Combining Balance Sheet--Non-Major Governmental Funds	28
EXHIBIT M--Combining Statement of Revenues, Expenditures, and Changes in Fund Balance--Non-Major Governmental Funds.....	29
EXHIBIT N--Statement of Revenues--Budget and Actual--General Fund.....	30
EXHIBIT O--Statement of Expenditures--Budget and Actual--General Fund	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	32
Comments and Recommendations.....	34

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

This is the first year of implementation for GASB No. 34 and as such a comparative analysis between years could not be presented. The net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

	Governmental Activities	Business-Type Activities	Total
	2005	2005	2005
Current Assets	\$ 444,378	\$ 40,595	\$ 484,973
Noncurrent Assets	1,208,946	135,885	1,344,831
Total Assets	1,653,324	176,480	1,829,804
Current Liabilities	8,096	9,205	17,301
Noncurrent Liabilities	90,754		90,754
Total Liabilities	98,850	9,205	108,055
Net Assets			
Invested in Capital Assets-Net of Debt	673,814	95,290	769,104
Unrestricted	436,282	31,390	467,672
Total Net Assets	\$ 1,110,096	\$ 126,680	\$ 1,236,776

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the current date. Again, this is the first year of the Village's conversion to GASB No. 34 provisions.

	Governmental Activities <u>2005</u>	Business-Type Activities <u>2005</u>	Total <u>2005</u>
Program Revenues			
Charges for Services	\$ 99,991	\$ 41,440	\$ 141,431
Operating Grants and Contributions	81,687		81,687
General Revenues			
Property Taxes	55,303		55,303
State-Shared Revenues	43,774		43,774
Unrestricted Investment Earnings	5,496	1,784	7,280
Other	<u>9,662</u>	<u></u>	<u>9,662</u>
Total Revenues	<u>295,913</u>	<u>43,224</u>	<u>339,137</u>
Program Expenses			
General Government	47,400		47,400
Public Safety	5,627		5,627
Public Works	160,695		160,695
Community and Economic Development	3,009		3,009
Recreation and Culture	53,292		53,292
Other	5,277		5,277
Interest on Long-Term Debt	1,100		1,100
Water	<u></u>	<u>46,276</u>	<u>46,276</u>
Total Expenses	<u>276,400</u>	<u>46,276</u>	<u>322,676</u>
Change in Net Assets	<u>\$ 19,513</u>	<u>\$ (3,052)</u>	<u>\$ 16,461</u>

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

The Village's total governmental revenues increased \$2,342. However, expenses also decreased \$72,946 due to the combination of fewer less equipment purchases and attorney fees.

	Governmental Activities <u>2003</u>	Governmental Activities <u>2005</u>	Amount Difference <u>2005</u>	Percent Difference <u>2005</u>
Revenues				
Taxes	\$ 51,575	\$ 55,303	\$ 3,728	7%
Licenses and Permits	155	320	165	106%
State Grants	120,465	122,522	2,057	2%
Charges for Services	2,735	1,990	(745)	-27%
Fines and Forfeits	150		(150)	100%
Interest and Rentals	35,388	105,816	70,428	199%
Other	<u>167,884</u>	<u>9,962</u>	<u>(157,922)</u>	<u>-94%</u>
Total Revenues	<u>378,352</u>	<u>295,913</u>	<u>75,483</u>	<u>20%</u>
Expenses				
General Government	29,997	47,400	17,403	58%
Public Safety	803	5,627	4,824	601%
Public Works	100,311	135,837	35,526	35%
Community and Economic Development	2,478	3,009	531	100%
Recreation and Culture	16,055	33,092	17,037	100%
Other	4,130	5,277	1,147	28%
Capital Outlay	38,216		(38,216)	-100%
Debt Service	<u>12,952</u>	<u>23,024</u>	<u>10,072</u>	<u>78%</u>
Total Expenses	<u>204,942</u>	<u>253,266</u>	<u>48,324</u>	<u>24%</u>
Excess of Revenues Over Expenditures	<u>173,410</u>	<u>42,647</u>	<u>(130,763)</u>	<u>-75%</u>
Beginning Fund Balance	<u>264,119</u>	<u>393,635</u>	<u>129,516</u>	<u>49%</u>
Ending Fund Balance	<u>\$437,529</u>	<u>\$436,282</u>	<u>\$ 27,159</u>	<u>6%</u>

As seen above, the Village's interest and rental revenue increased in 2005 due to new royalties received from Ward Lake Energy. The other revenue decreased as the Village received numerous donations in 2003 to help build the new library. The Village's expenses increased in 2005 primarily in the public works area due to more maintenance performed on the Village roads including seal coating Tapio Street. Recreational and Cultural expenses increased due to the unexpected costs encountered in bringing the donated train engine to the Village. Also, the capital outlay declined as the Village did not purchase any new equipment in 2005.

Business-Type Activities

The Village's business-type activities consist of the Water Fund. The Village provides water to all of the Village's residents. The expenses for the Water Fund increased as the system is aging and is requiring more maintenance.

VILLAGE OF KALEVA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village's Funds

Our analysis of the Village's major funds are listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2005 include the General Fund, Major Street Fund, Local Street Fund, Library Fund, and the Water Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government activities, which incurred expenses of approximately \$47,400 in 2005. These services are supported by the operating millage and State shared revenues. The Water Fund is described above.

General Fund Budgetary Highlights

Over the course of the year, the Village Council amended the budget to take into account events during the year. The most significant change was to increase the community promotion due to the cost of bringing the locomotive to the Village and the increase in the Local Street Fund for the maintenance performed on Tapio Street.

Capital Asset and Debt Administration

At the end of 2005, the Village's governmental funds had \$764,568 invested in a broad range of capital assets, including land, buildings, equipment, and vehicles; and \$95,290 invested in the water system. To pay for the renaissance land acquired, the Village entered into an Michigan Economic Development Corporation (MEDC) loan for \$90,754.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2006 will increase as the Village has planned more street repairs. In regards to the water system, the expenses will increase as the Village will expand its current water system through the use of a grant and a loan obtained by the Village. To coincide with the water improvements, the Village will also increase water rates.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's Office at 9219 Aura Street, P.O. Box 45, Kaleva, Michigan 49645 (Phone Number 231-362-3366).

VILLAGE OF KALEVA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 410,201	\$ 40,595	\$ 450,796
Delinquent Taxes Receivable	8,073		8,073
Due From State	26,104		26,104
Total Current Assets	444,378	40,595	484,973
Noncurrent Assets			
Capital Assets--Net of Accumulated Depreciation	764,568	95,290	859,858
Total Assets	1,208,946	135,885	1,344,831
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	8,096	9,205	17,301
Noncurrent Liabilities			
MEDC Loan--Due Within One Year	6,482		6,482
MEDC Loan--Due in More Than One year	84,272		84,272
Total Liabilities	98,850	9,205	108,055
<u>NET ASSETS</u>			
Investment in Capital Assets--Net of Related Debt	673,814	95,290	769,104
Restricted for			
Major Street	52,860		52,860
Local Street	3,818		3,818
Library	74,860		74,860
Non-Major	40,649		40,649
Unrestricted	264,095	31,390	295,485
Total Net Assets	\$ 1,110,096	\$ 126,680	\$ 1,236,776

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

Functions/Programs	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	PRIMARY GOVERNMENT		
				Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities						
General Government	\$ 47,400	\$ 98,001		\$ 50,601		\$ 50,601
Public Safety	5,627		\$ 687	(4,940)		(4,940)
Public Works	160,695		80,422	(80,273)		(80,273)
Community and Economic Development	3,009		278	(2,731)		(2,731)
Recreation and Culture	53,292	1,990	300	(51,002)		(51,002)
Other	5,277			(5,277)		(5,277)
Interest on Long-Term Debt	1,100			(1,100)		(1,100)
Total Governmental Activities	276,400	99,991	81,687	(94,722)	\$ -	(94,722)
Business-Type Activities						
Water	46,276	41,440			(4,836)	(4,836)
Total Business-Type Activities	46,276	41,440	-	-	(4,836)	(4,836)
Total Primary Government	\$ 322,676	\$ 141,431	\$ 81,687	\$ (94,722)	\$ (4,836)	\$ (99,558)
General Revenues						
Property Taxes				\$ 55,303		\$ 55,303
State-Shared Revenues				43,774		43,774
Unrestricted Investment Earnings				5,496	\$ 1,784	7,280
Other Revenues				9,662		9,662
Total General Revenues						
Special Items and Transfers				114,235	1,784	116,019
Change in Net Assets				19,513	(3,052)	16,461
Net Assets--Beginning				1,090,583	129,732	1,220,315
Net Assets--Ending				\$ 1,110,096	\$ 126,680	\$ 1,236,776

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005**

EXHIBIT C

	General	Major Street	Local Street	Library	Non-Major	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 246,768	\$ 46,146	\$ 1,057	\$ 74,860	\$ 41,370	\$ 410,201
Delinquent Taxes Receivable	8,073					8,073
Due From State	15,072	8,059	2,973			26,104
Total Assets	<u>\$ 269,913</u>	<u>\$ 54,205</u>	<u>\$ 4,030</u>	<u>\$ 74,860</u>	<u>\$ 41,370</u>	<u>\$ 444,378</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 5,818	\$ 1,345	\$ 212		\$ 721	\$ 8,096
Total Liabilities	<u>5,818</u>	<u>1,345</u>	<u>212</u>	<u>\$ -</u>	<u>721</u>	<u>8,096</u>
Fund Equity						
Fund Balances						
Reserved for						
Major Street		52,860				52,860
Local Street			3,818			3,818
Library				74,860		74,860
Non-Major					40,649	40,649
Unreserved--Undesignated	264,095					264,095
Total Fund Equity	<u>264,095</u>	<u>52,860</u>	<u>3,818</u>	<u>74,860</u>	<u>40,649</u>	<u>436,282</u>
Total Liabilities and Fund Equity	<u>\$ 269,913</u>	<u>\$ 54,205</u>	<u>\$ 4,030</u>	<u>\$ 74,860</u>	<u>\$ 41,370</u>	<u>\$ 444,378</u>
Fund Balances--Total Governmental Funds						\$ 436,282
Amounts reported for governmental activities in the Statement of Net Assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds.						764,568
Long-term liabilities are not due and payable in the current period and are not reported in the funds.						<u>(90,754)</u>
Net Assets of Governmental Activities						<u>\$1,110,096</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

EXHIBIT D

	General	Major Street	Local Street	Library	Non-Major	Total Governmental Funds
Revenues						
Taxes	\$ 55,303					\$ 55,303
Licenses and Permits	320					320
State Grants	43,774	\$ 58,422	\$ 19,639		\$ 687	122,522
Charges for Services					1,990	1,990
Interest and Rentals	103,177	2,274	87		278	105,816
Other Revenue	9,662			\$ 300		9,962
Total Revenues	212,236	60,696	19,726	300	2,955	295,913
Expenditures						
Current						
General Government	47,400					47,400
Public Safety	4,940				687	5,627
Public Works	32,520	51,786	51,531			135,837
Community and Economic Development	3,009					3,009
Recreation and Cultural	15,483			2,401	15,208	33,092
Other	5,277					5,277
Debt Service						
Principal	20,303				1,621	21,924
Interest and Fiscal Fees	1,100					1,100
Total Expenditures	130,032	51,786	51,531	2,401	17,516	253,266
Excess of Revenues Over (Under) Expenditures	82,204	8,910	(31,805)	(2,101)	(14,561)	42,647
Other Financing Sources (Uses)						
Interfund Transfers In			21,000		10,000	31,000
Interfund Transfers (Out)	(10,000)	(21,000)				(31,000)
Total Other Financing Sources (Uses)	(10,000)	(21,000)	21,000	-	10,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	72,204	(12,090)	(10,805)	(2,101)	(4,561)	42,647
Fund Balance (Deficit)--January 1, 2005	191,891	64,950	14,623	76,961	45,210	393,635
Fund Balance (Deficit)--December 31, 2005	\$ 264,095	\$ 52,860	\$ 3,818	\$ 74,860	\$ 40,649	\$ 436,282
Excess of Revenue over Other Sources Over (Under) Expenditures and Other Uses						\$ 42,647
Amounts reported for governmental activities in the Statement of Activities are different because:						
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.						(45,058)
Repayments of installment purchase agreements is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt).						21,924
Change in Net Assets of Governmental Activities						\$ 19,513

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005**

EXHIBIT E

ASSETS

	<u>Water</u>
Current Assets	
Cash and Cash Equivalents	<u>\$ 40,595</u>
Total Current Assets	<u>40,595</u>
Noncurrent Assets	
Capital Assets-Net of Accumulated Depreciation	<u>95,290</u>
Total Noncurrent Assets	<u>95,290</u>
Total Assets	<u>135,885</u>

LIABILITIES

Current Liabilities	
Accounts Payable	<u>9,205</u>
Total Current Liabilities	<u>9,205</u>

NET ASSETS

Invested in Capital Assets-Net of Related Debt	95,290
Unrestricted	<u>31,390</u>
Total Net Assets	<u><u>\$ 126,680</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
STATEMENT OF REVENUES COLLECTED, EXPENSES
PAID AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended December 31, 2005

EXHIBIT F

	<u>Water</u>
Operating Revenues	
Charge for Services	<u>\$ 41,440</u>
Total Operating Revenues	<u>41,440</u>
Operating Expenses	
Wages	11,198
Supplies	8,351
Repairs and maintenance	5,959
Utilities	6,665
Insurance	3,866
Dues	1,270
Professional Services	710
Depreciation	<u>8,257</u>
Total Operating Expenses	<u>46,276</u>
Net Operating Income (Loss)	<u>(4,836)</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>1,784</u>
Total Nonoperating Revenues (Expenses)	<u>1,784</u>
Net Income (Loss)	<u>(3,052)</u>
Retained Earnings--January 1, 2005	<u>129,732</u>
Retained Earnings--December 31, 2005	<u><u>\$ 126,680</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
COMBINED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended December 31, 2005

EXHIBIT G

	<u>Water</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 41,440
Cash Payments to Employees for Services and Benefits	(11,198)
Cash Payments to Suppliers for Goods and Services	<u>(18,704)</u>
Net Cash Provided by Operating Activities	<u>11,538</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	<u>(42,937)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(42,937)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>1,784</u>
Net Cash Provided by Investing Activities	<u>1,784</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(29,615)
Cash and Cash Equivalents at Beginning of Year	<u>70,210</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 40,595</u></u>
Reconciliation of Operating Income to Net	
Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (4,836)
Adjustments to Reconcile Operating Income	
to Net Cash Provided by Operating Activities	
Depreciation Expense	8,257
Increase (Decrease) in Accounts Payable	<u>8,117</u>
Net Cash Provided by Operating Activities	<u><u>\$ 11,538</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Kaleva (Village) is located in Manistee County and provides services to approximately 500 residents in many areas including public safety, highways and streets, general administrative services, and community enrichment and development. The Village was incorporated in April of 1948 and operates as a president/trustee form of government.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental organizations required to be included in the financial statements of the Village.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The Library Fund accounts for the donations restricted for use on library operations and capital improvements.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Village reports the following major proprietary fund:

Water Fund accounts for the water operations of the Village.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected to consistently apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are collection fees for water and sewer consumption. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

The bank deposits are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property Taxes

The Village's 2005 ad valorem tax is levied and collectible on July 1, 2005. It is the Village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the Village operations. Property taxes are recognized when received. The 2005 State taxable valuation of the Village amounted to \$7,210,871, on which ad valorem taxes levied for all Village purposes are \$57,687. There are 8 mills for general operations.

Uncollected real property taxes, which become delinquent October 1, are purchased by Manistee County and paid to the Village in June of the subsequent year.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

	Governmental Funds	Enterprise Funds
Buildings	20 to 40 years	
Vehicles	5 to 10 years	
Equipment	5 to 10 years	5 to 10 years
Water System		40 years

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the Village Council for the General Fund and some special revenue funds after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The Village Council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures Over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
President	\$ 1,140	\$ 1,173	\$ (33)
Building and Grounds	22,340	27,940	(5,600)
Public Safety			
Fire		4,940	(4,940)
Public Works			
Highways, Streets and Bridges not Act 51	1,500	2,106	(606)
Other			
Insurance	2,500	3,866	(1,366)

During the year ended December 31, 2005, budgets were not adopted for the following special revenue funds:

Liquor Law Enforcement
Renaissance
Library

Legal Noncompliance/Violation of Finance Related Provision

1. Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a)
2. Failure to adopt an ACH policy in accordance with Public Act 738 of 2002 (MCL 124.303)

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated one bank for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village's deposits and investment policy are in accordance with statutory authority.

At year end, the Village did not have any investments, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Bank Deposits	\$ 409,901	\$40,595	\$450,496
Petty Cash	<u>300</u>	<u> </u>	<u>300</u>
Total Cash and Cash Equivalents	<u>\$ 410,201</u>	<u>\$40,595</u>	<u>\$450,796</u>

The bank balance of the primary government's deposits is \$450,880, of which \$100,000 is covered by Federal depository insurance.

NOTE D--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The 2005 operating transfers from Exhibits D can be summarized as follows:

	<u>Transfers In</u>	<u>Transfers (Out)</u>
General		\$ 10,000
Major Street		21,000
Local Street	\$21,000	
Non Major Governmental	<u>10,000</u>	<u> </u>
Total	<u>\$31,000</u>	<u>\$ 31,000</u>

VILLAGE OF KALEVA
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Capital asset activity of the Village's governmental funds for the current year, as follows:

<u>Governmental Activities</u>	<u>Account Balances 01/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/05</u>
Capital Assets Not Being Depreciated				
Land	<u>\$ 348,000</u>	<u></u>	<u></u>	<u>\$ 348,000</u>
Subtotal	<u>348,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>348,000</u>
Capital Assets Being Depreciated				
Buildings	<u>619,000</u>	<u></u>	<u></u>	<u>619,000</u>
Vehicles	<u>148,290</u>	<u></u>	<u></u>	<u>148,290</u>
Subtotal	<u>767,290</u>	<u>-</u>	<u>-</u>	<u>767,290</u>
Less Accumulated Depreciation for				
Buildings	<u>213,836</u>	<u>25,200</u>	<u></u>	<u>239,036</u>
Vehicles	<u>91,828</u>	<u>19,858</u>	<u></u>	<u>111,686</u>
Subtotal	<u>305,664</u>	<u>45,058</u>	<u>-</u>	<u>350,722</u>
Net Capital Assets Being Depreciated	<u>461,626</u>	<u>-</u>	<u>(45,058)</u>	<u>416,568</u>
Governmental Activities Capital Total Capital Assets--Net of Depreciation	<u><u>\$ 809,626</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (45,058)</u></u>	<u><u>\$ 764,568</u></u>

VILLAGE OF KALEVA
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Capital asset activity of the Village's enterprise funds for the current year, as follows:

<u>Business-Type Activities</u>	<u>Account Balances 01/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/05</u>
Capital Assets Being Depreciated				
Water System	\$152,127			\$152,127
Wells	7,146			7,146
Equipment	<u>41,361</u>	<u>\$ 42,937</u>		<u>84,298</u>
Total	<u>200,634</u>	<u>42,937</u>	<u>\$ -</u>	<u>243,571</u>
Less Accumulated Depreciation				
Water System	123,733	3,816		127,549
Wells	7,146			7,146
Equipment	<u>9,145</u>	<u>4,441</u>		<u>13,586</u>
Total	<u>140,024</u>	<u>8,257</u>	<u>-</u>	<u>148,281</u>
Net Capital Assets Being Depreciated	<u>60,610</u>	<u>42,937</u>	<u>8,257</u>	<u>95,290</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 60,610</u>	<u>\$ 42,937</u>	<u>\$ 8,257</u>	<u>\$ 95,290</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Public Works	\$24,858
Recreational and Cultural	<u>20,200</u>
Total Governmental Activities	<u>\$45,058</u>
Business-Type Activities	
Water	<u>\$ 8,257</u>
Total Business-Type Activities	<u>\$ 8,257</u>

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The individual long-term debt of the primary government of the Village, and the changes therein, may be summarized as follows:

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Village of Kaleva Installment Purchase Agreement dated September 25, 2001 with equal monthly installments of \$1,709 and an interest rate of 4.3%.	\$ 20,303	\$ (20,303)	-	
Michigan Economic Development Corporation loan agreement establishing village renaissance zone with equal monthly installments of \$1,621 and an interest rate of 0%.	<u>92,375</u>	<u>(1,621)</u>	<u>\$90,754</u>	<u>\$ 6,482</u>
Totals	<u>\$112,678</u>	<u>\$ (21,924)</u>	<u>\$90,754</u>	<u>\$ 6,482</u>

Long-Term Debt

The annual interest and principal requirements of the Village of Kaleva's long-term borrowing may be summarized as follows:

In July 1998, the Village obtained an infrastructure loan/grant through the Michigan Economic Development Corporation (MEDC), a Federally funded program in the amount of \$923,754. For each qualifying job created, which adds to the existing job base, the loan is reduced by \$20,000 by applying the payment first to accrued interest and then to the principal loan balance. The objective of the loan and establishment of the renaissance zone was completed. As a result, the interest on the loan has been forgiven and the Village is required to repay 10% of the \$923,754 loan amount. Accordingly, the principal amount due, as defined in the financing agreement, will be \$92,375.40 and quarterly payments of \$1,620.62 that begin December 1, 2005 and with a final payment in the amount of \$1,620.68 due on December 1, 2019.

<u>Maturity</u>	<u>Principal</u>
2006	\$ 6,482
2007	6,482
2008	6,482
2009	6,482
2010	6,482
2011-2015	32,410
2016-2019	<u>25,934</u>
Total	<u>\$ 90,754</u>

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE G--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Village maintains one enterprise fund that provides water services. Segment information for the year ended December 31, 2005, as follows:

	<u>Water</u>
Operating Revenues	\$41,440
Operating Income (Loss)	(4,836)
Nonoperating Revenue (Expenses)	1,784
Net Income (Loss)	(3,052)
Land, Buildings, and Equipment	
Additions	42,937
Depreciation Expense	8,257
Net Working Capital	40,595
Total Assets	135,885
Total Net Assets	126,680

NOTE H--RISK MANAGEMENT

The Village of Kaleva is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The Village participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the past three years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property pool (pool) pursuant to the provisions of Public Act 138 of 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Pool program operates as a common risk-sharing management program for local units in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The Village pays an annual premium to the Pool for its insurance coverage.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE I--CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2005, the Village of Kaleva implemented several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, "Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording nonexchange transactions on the accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model by eliminating contributed capital accounts, and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section which provides an overall analysis of the financial position and results of operations, and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34.

VILLAGE OF KALEVA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT H

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Taxes	\$ 52,500	\$ 52,500	\$ 55,303	\$ 2,803
Licenses and Permits	300	300	320	20
State Grants	44,500	44,500	43,774	(726)
Interest and Rentals	47,500	47,500	103,177	55,677
Other Revenue	3,500	3,500	9,662	6,162
Total Revenue	148,300	148,300	212,236	63,936
Expenditures				
General Government	36,750	45,330	47,400	(2,070)
Public Safety	-	-	4,940	(4,940)
Public Works	37,950	38,340	32,520	5,820
Community and Economic Development	3,600	3,600	3,009	591
Recreational and Cultural	5,000	18,260	15,483	2,777
Other	6,300	6,490	5,277	1,213
Debt Service	17,000	21,500	21,403	97
Total Expenditures	106,600	133,520	130,032	3,488
Excess of Revenues Over (Under) Expenditures	41,700	14,780	82,204	67,424
Other Financing Sources (Uses)				
Operating Transfers In				-
Operating Transfers (Out)	(15,000)	(15,000)	(10,000)	5,000
Total Other Financing Sources (Uses)	(15,000)	(15,000)	(10,000)	5,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	26,700	(220)	72,204	72,424
Fund Balance--January 1, 2005	87,445	87,445	191,891	104,446
Fund Balance--December 31, 2005	\$ 114,145	\$ 87,225	\$ 264,095	\$ 176,870

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT I

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 46,900	\$ 46,900	\$ 58,422	\$ 11,522
Interest and Rentals	1,500	1,500	2,274	774
Total Revenues	48,400	48,400	60,696	12,296
Expenditures				
Public Works				
Routine and Preventive Maintenance	63,040	47,040	30,746	16,294
Winter Routine and Preventive Maintenance	21,040	21,040	21,040	-
Total Expenditures	84,080	68,080	51,786	16,294
Excess of Revenues Over (Under) Expenditures	(35,680)	(19,680)	8,910	28,590
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(5,000)	(21,000)	(21,000)	-
Total Other Financing Sources (Uses)	(5,000)	(21,000)	(21,000)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(40,680)	(40,680)	(12,090)	28,590
Fund Balance--January 1, 2005	80,000	80,000	64,950	(15,050)
Fund Balance--December 1, 2005	\$ 39,320	\$ 39,320	\$ 52,860	\$ 13,540

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005**

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 18,510	\$ 18,510	\$ 19,639	\$ 1,129
Interest and Rentals	150	150	87	(63)
Total Revenues	18,660	18,660	19,726	1,066
Expenditures				
Public Works				
Routine and Preventive Maintenance	34,993	51,293	40,224	11,069
Winter Routine and Preventive Maintenance	11,307	11,307	11,307	-
Total Expenditures	46,300	62,600	51,531	11,069
Excess of Revenues Over (Under) Expenditures	(27,640)	(43,940)	(31,805)	12,135
Other Financing Sources (Uses)				
Interfund Transfers In	5,000	5,000	21,000	16,000
Total Other Financing Sources (Uses)	5,000	5,000	21,000	16,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(22,640)	(38,940)	(10,805)	28,135
Fund Balance--January 1, 2005	27,000	27,000	14,623	(12,377)
Fund Balance--December 1, 2005	\$ 4,360	\$ (11,940)	\$ 3,818	\$ 15,758

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
LIBRARY--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT K

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Other--Donations			\$ 300	\$ 300
Total Revenues	\$ -	\$ -	300	300
Expenditures				
Recreational and Cultural			2,401	2,401
Total Expenditures	-	-	2,401	2,401
Excess of Revenues Over (Under) Expenditures	-	-	(2,101)	2,701
Fund Balance--January 1, 2005			76,961	76,961
Fund Balance--December 1, 2005	\$ -	\$ -	\$ 74,860	\$ 74,860

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

EXHIBIT L

	Park	Liquor Law Enforcement	Renaissance	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,597	\$ -	\$ 39,773	\$ 41,370
Total Assets	<u>\$ 1,597</u>	<u>\$ -</u>	<u>\$ 39,773</u>	<u>\$ 41,370</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities	\$ 721			\$ 721
Total Liabilities	<u>721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>721</u>
Fund Equity				
Fund Balance	<u>876</u>	<u>-</u>	<u>39,773</u>	<u>40,649</u>
Total Fund Equity	<u>876</u>	<u>-</u>	<u>39,773</u>	<u>40,649</u>
Total Liabilities and Fund Equity	<u>\$ 1,597</u>	<u>\$ -</u>	<u>\$ 39,773</u>	<u>\$ 41,370</u>

VILLAGE OF KALEVA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended December 31, 2005

EXHIBIT M

	Park	Liquor Law	Renaissance	Total
Revenues				
State Grants		\$ 687		\$ 687
Charges for Services	\$ 1,990			1,990
Interest			\$ 278	278
Total Revenue	1,990	687	278	2,955
Expenditures				
Public Safety		687		687
Recreational and Cultural	15,208			15,208
Debt Service--Principal			1,621	1,621
Total Expenditures	15,208	687	1,621	17,516
Excess of Revenues Over (Under) Expenditures	(13,218)	-	(1,343)	(14,561)
Other Financing Sources (Uses)				
Operating Transfers In	10,000			10,000
Total Other Financing Sources (Uses)	10,000	-	-	10,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,218)	-	(1,343)	(4,561)
Fund Balance--January 1, 2005	4,094	-	41,116	45,210
Fund Balance--December 31, 2005	\$ 876	\$ -	\$ 39,773	\$ 40,649

VILLAGE OF KALEVA
STATEMENT OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT N

	<u>BUDGETED AMOUNTS</u>			Variance
	Original	Final	Actual	Favorable (Unfavorable)
<u>REVENUES</u>				
Property Taxes				
Current	\$ 47,000	\$ 47,000	\$ 47,230	\$ 230
Delinquent	5,500	5,500	8,073	2,573
Total Property Taxes	52,500	52,500	55,303	2,803
Licenses and Permits				
Land Use Permits	300	300	320	20
Total Licenses and Permits	300	300	320	20
State Grants				
Revenue Sharing	44,500	44,500	43,774	(726)
Total State Grants	44,500	44,500	43,774	(726)
Interest and Royalties				
Vehicle Rental	46,000	46,000	45,400	(600)
Rent			1,150	1,150
Interest Earned	1,500	1,500	5,496	3,996
Royalties			51,131	51,131
Total Interest and Rents	47,500	47,500	103,177	55,677
Other Revenues				
Reimbursements	3,500	3,500	9,662	6,162
Total Other Revenues	3,500	3,500	9,662	6,162
Total Revenue	\$ 148,300	\$ 148,300	\$ 212,236	\$ 63,936

VILLAGE OF KALEVA
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT O

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Village Council	\$ 3,150	\$ 5,400	\$ 3,176	\$ 2,224
President	1,100	1,140	1,173	(33)
Audit	800	800	710	90
Elections	900	900	-	900
Legal	3,500	5,100	5,085	15
Clerk	7,550	6,500	6,420	80
Treasurer	3,000	3,150	2,896	254
Building and Grounds	16,750	22,340	27,940	(5,600)
Total General Government	36,750	45,330	47,400	(2,070)
Public Safety				
Fire	-	-	4,940	(4,940)
Total Public Safety	-	-	4,940	(4,940)
Public Works				
Department of Public Works	24,500	23,820	19,890	3,930
Highways, Streets and Bridges not Act 51	1,450	1,500	2,106	(606)
Street Lights	10,000	10,000	7,826	2,174
Highways, Streets and Bridges	2,000	3,020	2,698	322
Total Public Works	37,950	38,340	32,520	5,820
Community and Economic Development				
Planning	3,600	3,600	3,009	591
Total Community and Economic Development	3,600	3,600	3,009	591
Recreational and Cultural				
Library	3,000	3,000	405	2,595
Community Promotion	2,000	15,260	15,078	182
Total Recreational and Cultural	5,000	18,260	15,483	2,777
Other				
Other--Payroll Taxes	3,800	3,990	1,411	2,579
Insurance	2,500	2,500	3,866	(1,366)
Total Other	6,300	6,490	5,277	1,213
Debt Service				
Principal Payments	17,000	20,400	20,303	97
Interest Expense	-	1,100	1,100	-
Total Debt Service	17,000	21,500	21,403	97
Total Expenditures	106,600	133,520	130,032	3,488
Other Financing Sources				
Operating Transfers (Out)	15,000	15,000	10,000	5,000
Total Other Financing Source	15,000	15,000	10,000	5,000
Total Expenditures	\$ 121,600	\$ 148,520	\$ 140,032	\$ 8,488



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 25, 2006

Village Council
Village of Kaleva
Manistee County
P.O. Box 21
Kaleva, Michigan 49645

RE: Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Kaleva, Manistee County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Village of Kaleva's basic financial statements and have issued our report thereon dated May 25, 2006. The Village of Kaleva adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of January 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Village of Kaleva's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Kaleva's ability to initiate, record, process, and report financial data consistent with the assertions of management in

the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations as items 05-01 and 05-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that both of the reportable conditions described above are material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Village of Kaleva's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted several instances of noncompliance, which we have reported to the management of Village of Kaleva in the accompanying Comments and Recommendations as items 05-03 through 05-07.

This report is intended solely for the information and use of management of the Village of Kaleva, the council members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF KALEVA

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES

Management (Village Council) is responsible for establishing and maintaining a system of internal controls over the accounting procedures. Our study and evaluation of internal control disclosed the following conditions that we believe to be material weaknesses:

Independent Review of Water Revenues

Finding 05-01

Condition: The treasurer is responsible for preparing the water bills, opening the mail, collecting money, preparing receipts, posting the water payments to the computer, preparing the bank deposits and making bank deposits. There are no independent reviews of the amounts collected with the amounts actually deposited. Also, under the current computer program used by the village, no method exists to print reports once a billing period has ended.

Criteria: According to the Uniform Accounting Procedures Manual, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted. Also, when possible, collections must be reconciled by an individual not involved in the receipt process. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

Recommendation: We recommend that a person independent of the water receipting process verify the collections received through the mail and over the counter to the amounts posted to the computer and bank deposits. We also recommend that the Village invest in a computer program that will be able to provide the reports necessary to perform the independent reviews.

Capital Assets

Finding 05-02

Condition: The Village does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the Village to update the capital assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records.

Recommendation: We recommend that the Village develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the Village should be taken and included in the permanent records of the Village and updated annually.

VILLAGE OF KALEVA

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

- 2) All assets owned by the Village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the Village to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the Village should keep records on all assets owned by the Village, which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset
- 4) Capital assets that meet the Village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be included in the financial statements of the Village. Compliance with GASB No. 34 is mandated for the Village for fiscal year ending June 30, 2004 and after.

STATUTORY NONCOMPLIANCE

Adoption of Village General Appropriation Acts

Finding 05-03

Condition: The Village of Kaleva did not adopt updated budgets for the Renaissance Fund, Liquor Law Fund and the Library Fund. The budgets that were adopted by the board did not contain information from the most recently completed fiscal year and did not contain information from the current fiscal year. The final amended budget for the Local Street Fund had expenses greater than the revenues and beginning fund balance. The 2006 budget was not adopted until January 2006.

VILLAGE OF KALEVA

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Criteria: MCL 141.435 states:

- (1) The recommended budget shall include at least the following:
 - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
 - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

MCL 141.436 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.

MCL 141.438 Section 18 (3) states: “Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.”

Directive: We direct the Village to comply with the above statutory budgeting requirements as required by law.

VILLAGE OF KALEVA
COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Expenditures in Excess of Appropriations--Village's Budgetary Funds

Finding 05-04

Condition: Our examination of procedures used by the Village to adopt and maintain operating budgets for the Village's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Village's 2005 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Village. As detailed below, actual 2005 expenditures exceeded the board's approved budget allocations for several General Fund activities.

During the fiscal year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
President	\$ 1,140	\$ 1,173	\$ (33)
Building and Grounds	22,340	27,940	(5,600)
Public Safety			
Fire		4,940	(4,940)
Public Works			
Highways, Streets and Bridges not Act 51	1,500	2,106	(606)
Other			
Insurance	2,500	3,866	(1,366)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Directive: We direct that the Village develop budgetary control procedures for the General Fund and Special Revenue Funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

VILLAGE OF KALEVA

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Electronic Transactions of Public Funds

Finding 05-05

Condition: The Village of Kaleva electronically transfers funds for payroll withholdings without legal authority.

Criteria: According to MCL 124.303:

“A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Directive: We direct the Village Council to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Transfer of Michigan Transportation Funds From Major Street Fund to Local Street Fund

Finding 05-06

Condition: The Village transferred \$21,000 or 36% of the 2005 Michigan Transportation Funds from the Major Street Fund to the Local Street Fund. The Village did not adopt a resolution setting forth all conditions specified in MCL 247.663.

Criteria: According to MCL 247.663, Section 6, not more than 25% per year of Michigan Transportation Funds received by the Village for the use on the major street system may be expended on the local street system of the Village unless the Village has adopted and is following an asset management process for its major and local street systems, and adopts a resolution with a copy to the Michigan Department of Transportation setting forth all conditions specified in MCL 247.663.

Directive: We direct the Village to comply with MCL 247.663 and adopt the necessary resolutions an asset management program.

VILLAGE OF KALEVA
COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Open Meetings Act Violations

Finding 05-07

Condition: On September 19, 2005, the Village Council held a closed session with no reason for the closed session disclosed. The reason was to discuss the pending litigation involving the relocation of the locomotive.

Criteria: MCL 15.267, Section 7 (1) of the Open Meetings Act states, in part: “The roll call vote and the purpose or purposes for calling the closed session shall be entered into the minutes of the meeting at which the vote is taken.”

Directive: We direct the Village to comply with the provision of the Open Meetings Act by clearly defining the purpose of the closed session in the minutes of the council meeting.